Associations Lured Here

Area Strong In Office Space

By John B. Willmann
Washington Post Staff Writer

Chauvinism aside, this Washington area is nudging Chicago for second spot on the office space leasing pole. New space here is being absorbed now at a rate of more than 2.5 million square feet a year—and going strong.

Meanwhile, New York City remains No. 1 without serious challenge because it builds almost as much new space for paper shufflers in one year as there is in the total private inventory here—about 40 million square feet.

But the Big Town has new respect for Washington in the office building market as the result of recent developments. Nine trade associations are moving to the Nation's Capital from NYC. The biggest is the American Bankers Association, which is the subject of much local leasing competition in a prime downtown location. The ABA is expected to take about 100,000 square feet, about the size of an average building here. Since no choice has been made, the competition is strong among leasing specialists.

Also leaving New York is the American Petroleum Institute, which like ABA already has a small office here. The Petroleum people are expected to occupy about 60,000 square feet in the block-long new giant called 1801 K Street (NW).

Also, the American Gas Association is expected to move here and take about 40,000 square feet in one of the new Rosslyn buildings. The Business Equipment Manufacturers Association is slated to occupy about 20,000 feet at 1828 L Street and the U.S. Brewers Association about 11,000 feet at 1750 K.

Other associations moving here include the American Federation of Information Processors, the Investment Company Institute and the Grocery Manufacturers.

Simply, the impetus for associations moving their headquarters to Washington from New York can be ascribed to two of real estate's prime motivators—location and price.

The Washington area is regarded as a fine location for associations and firms having a major interest in legislation and in the regulatory agencies with an emphasis on consumers. Still another location aspect is this area's easier commuting and generally more favorable living for both executive and lower level people. Even the far-off subway service is being considered by new tenants.

On the price front, the Washington market is about 50 per cent less expensive than New York, even with the general rate for prime new space being about $7 a foot and moving higher here. This contrasts with this city's $6 prime downtown a few years ago.

Leasing specialist Peter Speier, who heads the Julien J. Studley office here, contends that rentals in prime new buildings will be up to $8 and $9 a foot by 1972, and "if more office buildings in good downtown locations are not constructed, rentals could go up to $10 per square foot and above."

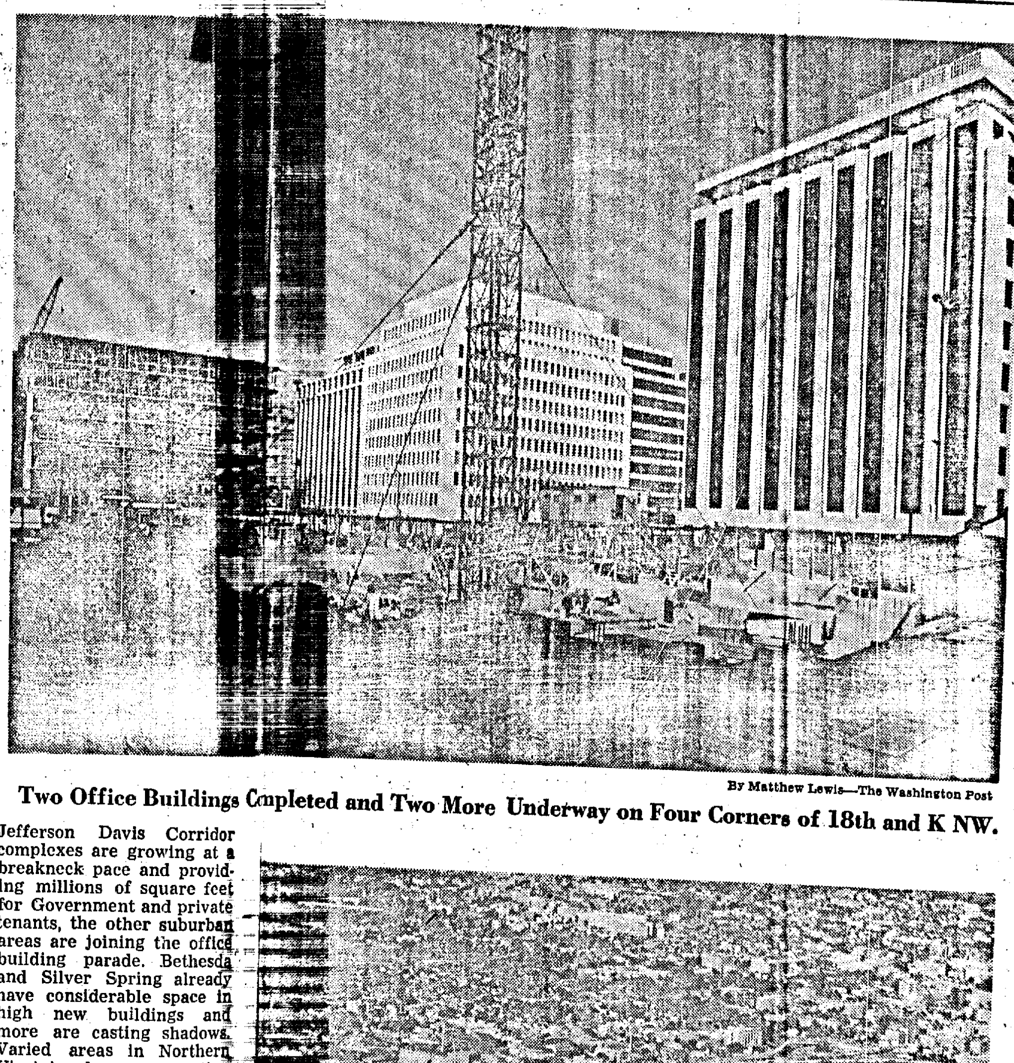
As a professional leasing man for a firm that specializes in finding spaces for clients on a commission basis, Speier may be considered somewhat optimistic—or pessimistic from the tenant's view.

But escalation clauses are being written into all new leases and other leasing professionals are almost equally bullish.

While Rosslyn and the Jefferson Davis Corridor complexes are growing at a breakneck pace and providing millions of square feet for Government and private tenants, the other suburban areas are joining the office building parade. Bethesda and Silver Spring already have considerable space in high new buildings and more are casting shadows. Varied areas in Northern Virginia also are attracting new buildings to be inhabited by people who use desks and filing cabinets. However, suburban office space in new buildings fills up at a less rapid rate than in downtown.

The central core of prime location for new office space continues to fan out from the intersection of Connecticut and K NW. That's where the prices are highest and the movement generally is westward from that corner above Farragut Square, for instance, the corner of 18th

See OFFICE, D21, Col. 1



By Matthew Lewis—The Washington Post

Two Office Buildings Completed and Two More Underway on Four Corners of 18th and K NW.

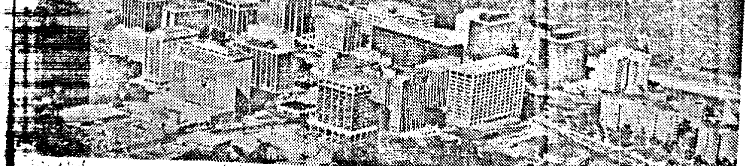


Photo by Blue Ridge Aerial Surveys

Aerial View of New Office Buildings in Rosslyn Area, Looking Across Potomac to Downtown Washington

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Area Office Space Shows Lure for Associations

OFFICE, From D1

and K has two new buildings completed in 1969 and has two more to be finished this year. Meanwhile, the building moves west along K and L to 20th Street and to 21st Street on M.

But there are other highly active areas too. The Watergate has one new building filled for several years and another big one coming out of the ground. The New Southwest has L'Enfant Plaza's two major buildings and a third being completed. Nearby is a large private building at 500 12th St. SW.

It should never be overlooked, even for purposes of surveying the private office building market, that Uncle Sam, or his alter ego GSA, provides the main thrust for the occupation of most office space here. Millions of square feet are in Government-owned buildings and about 14 million more are leased in privately owned buildings. And all U.S. office occupancy attracts private satellites.

One of the problem areas for new office space seems to be east of 15th Street. Two large buildings, at 12th and L and at 11th and G, are completed some months and unoccupied as yet and the leasing pace has generally been slower in the Downtown Progress area.

However, there is a new element of optimism in reports that real estate people have received from municipal officials, RLA and the Planning Commission. One report has an agreement made to permit new buildings to exceed the usual 120-130-foot ceilings and another to increase the Floor Area Ratio in relation to the size of the site.

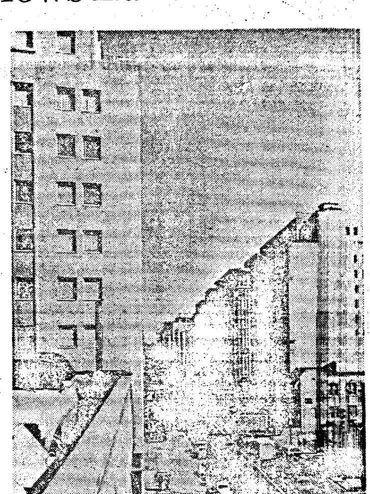
Now land values east of 15th are somewhat depressed but incentives on height and FAR may stimulate local developers in the area keyed to 14th and F Streets as a heart. However, it should be noted that leasing is optimistic at the new One McPherson Square (14th and K), where top floor tenants will have a view of the White House and the Monument.

Besides higher prices per square foot, the office rental market also has seen a significant development in a trend to longer (average 10 years) leases with escalation terms to cover increases in taxes and operating expenses.

Also the terms of leases are getting tougher. In New York, the tenant gets the space he uses but also gets billed for a share of common areas and space occupied by mechanical facilities. Here, the small tenant is likely to pay only for what he uses and possibly get wall covering, carpet, an executive bath, a kitchen or the like as a sweetener to make a decision for a new building.

Also sub-leases now are out in New York and they are also going out of style here. The owner prefers to get back vacated space, rather than have a former tenant compete with him in his own building for a new, short lease.

Generally, Washington area tenants are tending more toward full floors and thus the average is becoming more like 10,000 feet. In New York, the average tenant takes about double that amount, according to specialist Spier.



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Line of Office Buildings on L Street, Looking East From 18th Street NW.

Incidentally, suburban leasing rates are generally $1 less per square foot here than for prime midtown space in new buildings. Ros- [illegible] a foot but GSA recently got large chunks in S. Arlington on Route 1 for under $5.

Some of the bullishness in the office building market is attributable to a recent survey of office space showing a vacancy factor of less than 1 per cent, in contrast to a distressing 8 per cent figure in 1965.

Duke Brannock, chairman of the leasing committee of the Washington Board of Realtors, said that about 2 million square feet of new office space will hit the market this year in downtown.

Brannock also commented that older downtown buildings, where space now is available at $5 a foot or less, are handicapped by a lack of parking facilities. Indoor parking is required in new buildings and is regarded as a big plus by executives who drive to their shops.

Developer Oliver Carr Jr. agreed that the downtown market is strong now for office leasing and he has several new buildings coming up. His unfinished building at 1747 Pennsylvania Ave. is already 95 per cent leased.

But he commented that downtown needs more prime residential buildings, such as the Watergate, to make the office building districts more viable on a 24-hour-7-day basis. He noted that some long-time downtown offices have been moved to the suburbs—a trend he hopes will be reversed.

William Delaney of the Charles E. Smith firm [illegible] that the $7 a foot [illegible] is standard for [illegible] space and that [illegible] are above [illegible] opined that the price is likely to level out there for awhile because there is considerable new construction on in the works.

However, on the other hand, Delaney agreed that the 1970 prices for new downtown space must be $7 or slightly more simply to meet increased costs of building and lender terms.

James Coleman of Blake Construction added that 30 per cent of One McPherson Square is leased at $7-plus and that all of the 180,000 feet may be allocated by the time the building opens for [illegible] in summer. He also volunteered that the National Council for the Aging is moving here from New York City.

While Washington is luring associations from New York City and witnessing the sharpest rise in space rates and the highest occupancy levels of the last five years, there are some observers who warn that greater availability of mortgage money at more favorable terms might set off another larger binge of office building. And that could result in an oversupply of space in the private market.

But the major betting is that Parkinson will be right again and that offices here will expand more and that the bait of being near the seat of legislation and the offices of the regulatory agencies will eventually enable Washington to rank, unchallenged, as the Second City in office leasing.

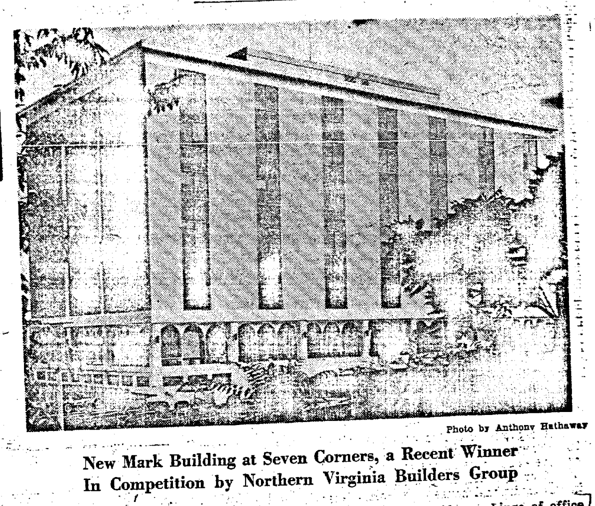

Photo by Anthony Hathaway

New Mark Building at Seven Corners, a Recent Winner In Competition by Northern Virginia Builders Group